

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Ypsilanti, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date October 8, 2004	Date Accountant Report Submitted To State: December 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 350 S. Main Street, Suite 200	City Ann Arbor	State MI	ZIP 48104
Accountant Signature 			

City of Ypsilanti, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Ypsilanti, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Ypsilanti, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ypsilanti's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Ypsilanti, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ypsilanti's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 on our consideration of the City of Ypsilanti's control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 8, 2004

City of Ypsilanti, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Ypsilanti's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, the second largest revenue source in the General Fund, was reduced over the last few years by the State of Michigan. The City reacted by eliminating all programming services in the Recreation Department, affecting Parkridge Community Center, the Senior Center, Rutherford Municipal Pool, and mobile programming. In addition, the position of deputy police chief was eliminated and police field services staffing was reduced from 45 to 40 positions. A building inspector position was also eliminated, and the general training budget was eliminated, all of which resulted in maintaining the fund balance near the prior year's level.
- The City continued its long-term investment of road infrastructure by issuing water and sewer bonds through the Drinking Water Revolving Fund; general obligation taxable capital improvement bonds for the Water Street project; and DDA general obligation limited tax bonds to improve City parking lots.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities	
	2004	2003
	(in thousands)	
Assets		
Current assets	\$ 17,954	\$ 35,761
Noncurrent assets	90,334	62,305
Total assets	108,288	98,066
Liabilities		
Current liabilities	9,448	6,333
Long-term liabilities	62,191	52,327
Total liabilities	71,639	58,660
Net Assets		
Invested in capital assets and joint venture - Net of related debt	1,901	1,188
Restricted	6,247	12,305
Unrestricted	28,501	25,913
Net Assets	\$ 36,649	\$ 39,406

The City's combined net assets decreased approximately 7 percent from a year ago. There were large increases in total assets and total liabilities due to the issuance of various bonds, and debt in the current year due to the investment in various capital improvements in the community.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and compared to the prior year (in thousands of dollars):

	Governmental Activities	
	2004	2003
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 1,683	\$ 1,521
Operating grants and contributions	2,504	3,162
Capital grants and contributions	4,421	2,250
General revenue:		
Property taxes	9,630	9,197
State-shared revenue	3,316	3,668
Unrestricted investment earnings	452	457
Decrease in fair value of investments	(290)	-
Increase in fair value of joint venture	6,472	-
Franchise fees	174	173
Special item - Loss on land held for resale	(7,788)	-
Special item - Gain on sale of capital assets and land	34	28
Total revenue	20,608	20,456
Program Expenses		
General government	1,419	1,581
Public safety	7,430	6,584
Community maintenance	7,795	6,865
Highways, streets, and bridges	2,102	617
Culture and recreation	1,208	1,012
Health and welfare	826	569
Interest on long-term debt	2,584	1,614
Total program expenses	23,364	18,842
Change in Net Assets	\$ (2,756)	\$ 1,614

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

The City's net assets decreased during the current year as a result of various factors. Total governmental revenues increased, despite decreases in operating grants, State-shared revenue, fair value of investments, and market value of land held for resale. The increase in the revenues was due primarily to the continuing increase in property taxes as a result of growth in the City's taxable values. On the other hand, expenses increased during the year. The paving and water main projects are nearing completion and the increase is the result of finishing up the projects. Debt service also increased due to the principal and interest charges of additional bonds issued this year. Health care costs and property insurance rates continued to increase. To offset this, the City closely monitored its spending in all other areas throughout the year. Purchases of police cars were postponed, office supply spending was limited, and various other spending was cut by all departments, including leaving positions vacant due to attrition. Contributions to the motorpool and workers' compensation funds were also reduced.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account various events occurring during the year. However, City administration, building, and public works exceeded the amended budget due to the accrual of wages at year end. Other departments overall stayed below budget, resulting in total expenditures being below the amended budget. The increase in transfers and contribution represents the transfer of the PSAP 911 fund balance to the Drug Forfeiture Fund. Recreation expenditures increased due to Parkridge programming supported by EMU and Washtenaw County grants.

Capital Asset and Debt Administration

At the end of 2004, the City had over \$21,000,000 invested in a broad range of capital assets including land, land improvements, sidewalks, police and fire equipment, various other vehicles and equipment, and roads. In addition, the City had approximately \$28,000,000 invested in the YCUA joint venture as explained in Note 11.

The City continued to receive an excellent rating from Moody's investor services and Standard and Poor's. The stated rating reflects the City's stable economic base, continued planned debt issuance, and the trend of a stable, well-managed financial operation.

City of Ypsilanti, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's spending budget for next year is \$1,500,000 less than fiscal year 2003-2004. There are several reasons for the reduction. The biggest change was the removal of the Environmental Services budget from the General Fund. After this adjustment and reducing expenses to balance the budget, the City eliminated 1.5 positions at the City Clerk and Treasurer's office; extra duty pay (overtime) at the Fire Department was eliminated; and wage increases were not given for all employees. In addition, the contribution to the motorpool was reduced.

The Recreation Department is operating through donations and grants. Property tax revenues are projected to increase approximately 2 percent. This can be accomplished because of the strong growth in our tax base. However, because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. This year the City sought the help of the Blue Ribbon Committee to study the finances of the City. The committee was appointed to examine the fiscal condition of the City by reviewing the long- and short-term fiscal challenges that threaten the delivery of necessary city services. The committee is charged with recommending short- and long-term strategies to address these challenges, which may include potential reductions/elimination of services and potential revenue increases. The committee recently recommended that the City Council conduct a study to determine the benefits of implementing a city income tax.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at 734.483.1100.

City of Ypsilanti, Michigan

Statement of Net Assets June 30, 2004

	Primary Government Governmental Activities	Component Units
Assets		
Cash and cash equivalents (Note 3)	\$ 13,574,261	\$ 839,565
Investments (Note 3)	6,829,337	557,408
Land/Building held for resale (Note 13)	7,144,536	-
Receivables:		
Special assessments	103,413	-
Accrued interest and other	338,647	975
Due from other governmental units	1,232,668	600
Lease receivable (Note 11)	26,828,829	-
Prepaid expenses and other assets	5,048	-
Inventory	128,608	-
Restricted assets (Note 3)	2,571,138	-
Investment in joint venture (Note 11)	28,070,144	-
Capital assets - Net (Note 5):		
Nondepreciable	8,256,866	53,200
Depreciable	13,204,960	1,123,912
Total assets	108,288,455	2,575,660
Liabilities		
Accounts payable	2,625,898	17,396
Accrued and other liabilities	2,702,500	3,158
Due to other governmental units	1,638,620	84,889
Deferred revenue (Note 4)	270,543	-
Noncurrent liabilities (Note 8):		
Due within one year	2,210,078	50,594
Due in more than one year	62,191,321	1,672,792
Total liabilities	71,638,960	1,828,829
Net Assets		
Invested in capital assets - Net of related debt	1,901,299	448,726
Restricted:		
Retiree benefits	648,352	-
Streets and highways	2,599,205	-
Debt service	2,999,643	-
Unrestricted	28,500,996	298,105
Total net assets	\$ 36,649,495	\$ 746,831

City of Ypsilanti, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 1,419,098	\$ 472,612	\$ 119,776	\$ 178,665
Public safety	7,429,566	572,581	312,299	68,142
Community maintenance	7,794,953	586,563	128,243	2,229,865
Highways, streets, and bridges	2,102,452	-	1,322,406	196,719
Culture and recreation	1,208,152	51,059	-	-
Health and welfare	825,539	-	621,783	-
Interest on long-term debt	2,583,923	-	-	1,747,516
Total primary government - Governmental activities	<u>\$ 23,363,683</u>	<u>\$ 1,682,815</u>	<u>\$ 2,504,507</u>	<u>\$ 4,420,907</u>
Component units:				
Downtown Development Authority	\$ 392,566	\$ -	\$ 78,771	\$ -
Depot Town Downtown Development Authority	64,482	-	-	-
Economic Development Corporation	93,186	-	-	-
Brownfield Redevelopment Authority	98,124	14,516	93,975	-
Total component units	<u>\$ 648,358</u>	<u>\$ 14,516</u>	<u>\$ 172,746</u>	<u>\$ -</u>
General revenues:				
Property taxes (Note 1)				
State-shared revenues				
Unrestricted investment earnings				
Decrease in fair value of investments				
Increase in fair value of joint venture				
Franchise fees				
Special items:				
Reduction in the market value of land held for resale (Note 13)				
Gain (loss) on sale of capital assets and land				
Total general revenues and special items				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense)	
Revenue and	
Changes in Net	
Assets	
Primary	
Government	
Governmental	Component
Activities	Units
<hr/>	
\$ (648,045)	\$ -
(6,476,544)	-
(4,850,282)	-
(583,327)	-
(1,157,093)	-
(203,756)	-
(836,407)	-
<hr/>	
(14,755,454)	-
-	(313,795)
-	(64,482)
-	(93,186)
-	10,367
<hr/>	
-	(461,096)
9,629,815	327,566
3,315,852	-
452,008	9,326
(290,378)	-
6,471,736	-
173,987	-
(7,788,399)	-
34,650	(416,080)
<hr/>	
11,999,271	(79,188)
<hr/>	
(2,756,183)	(540,284)
39,405,678	1,287,115
<hr/>	
\$ 36,649,495	\$ 746,831
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City of Ypsilanti, Michigan

			2002 General Obligation Capital Improvement Bonds	2003-B Capital Improvement Bonds
	General	Land Revolving		
Assets				
Cash and cash equivalents (Note 3)	\$ 1,313,894	\$ 849,742	\$ -	\$ -
Investments (Note 3)	2,019,340	-	-	-
Land held for resale (Note 13)	-	4,218,852	193,305	2,732,379
Receivables:				
Special assessments	81,828	-	-	-
Accrued interest and other	316,048	-	-	-
Due from other funds (Note 6)	475,566	-	-	-
Due from other governmental units	9,567	24,741	-	-
Inventory	113,431	-	-	-
Restricted assets (Note 3)	-	-	-	-
Total assets	\$ 4,329,674	\$ 5,093,335	\$ 193,305	\$ 2,732,379
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ 704,487	\$ 9,696	\$ -	\$ -
Accrued and other liabilities	635,188	777,282	97,426	446,292
Due to other funds (Note 6)	83,093	-	-	-
Due to other governmental units	68,526	-	-	-
Deferred revenue (Note 4)	127,086	104,090	-	-
Total liabilities	1,618,380	891,068	97,426	446,292
Fund Balances (Deficit)				
Reserved, reported in:				
General Fund:				
Debt service	350,161	-	-	-
Police training fund	14,150	-	-	-
Inventory	113,431	-	-	-
Capital Projects Funds:				
Unspent bond proceeds	-	-	-	-
Debt service	-	-	-	-
Capital projects (Note 5)	-	-	-	-
Land held for resale	-	4,218,852	193,305	2,732,379
Debt Service Funds - Debt service	-	-	-	-
Unreserved, reported in:				
General Fund:				
Designated (Note 15)	1,318,413	-	-	-
Undesignated	915,139	-	-	-
Special Revenue Funds:				
Designated (Note 15)	-	-	-	-
Undesignated	-	-	-	-
Capital Projects Funds	-	(16,585)	(97,426)	(446,292)
Total fund balances (deficit)	2,711,294	4,202,267	95,879	2,286,087
Total liabilities and fund balances (deficit)	\$ 4,329,674	\$ 5,093,335	\$ 193,305	\$ 2,732,379

**Governmental Funds
Balance Sheet
June 30, 2004**

2003 General Obligation Construction	2003-D Water Supply and Sewage Bonds	Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,870,010	\$ 656,395	\$ 5,426,485	\$ 13,116,526
-	-	2,042,805	4,062,145
-	-	-	7,144,536
-	-	21,585	103,413
-	-	22,599	338,647
538,021	-	148,092	1,161,679
-	-	559,504	593,812
-	-	-	113,431
-	10,037	2,561,101	2,571,138
<u>\$ 5,408,031</u>	<u>\$ 666,432</u>	<u>\$ 10,782,171</u>	<u>\$ 29,205,327</u>
\$ 880,445	\$ 606,243	\$ 425,027	\$ 2,625,898
-	-	33,775	1,989,963
-	549,811	528,775	1,161,679
-	-	1,570,094	1,638,620
-	-	200,493	431,669
880,445	1,156,054	2,758,164	7,847,829
-	-	-	350,161
-	-	-	14,150
-	-	-	113,431
-	-	2,832,019	2,832,019
-	-	445,636	445,636
4,527,586	-	-	4,527,586
-	-	-	7,144,536
-	-	2,203,846	2,203,846
-	-	-	1,318,413
-	-	-	915,139
-	-	1,477,769	1,477,769
-	-	2,069,255	2,069,255
-	(489,622)	(1,004,518)	(2,054,443)
4,527,586	(489,622)	8,024,007	21,357,498
<u>\$ 5,408,031</u>	<u>\$ 666,432</u>	<u>\$ 10,782,171</u>	<u>\$ 29,205,327</u>

City of Ypsilanti, Michigan

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **Year Ended June 30, 2004**

Total Fund Balances for Governmental Funds	\$ 21,357,498
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	19,988,056
Lease receivable from joint venture is not a financial resource and is not reported in the funds	26,828,829
Revenue-sharing due from State not received within 60 days of year end is not available currently and is not reported in the funds	638,856
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	103,413
Grants not received within 60 days of year end are not available currently and are not reported in the funds	57,713
Compensated absences are not due and payable in the current period and are not reported in the funds	(940,535)
Interest amounts on long-term liabilities are not payable until due in the funds	(691,655)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(62,980,108)
Investment in joint venture is not a financial resource and is not reported in the funds	28,070,144
Internal Service Fund - Workers' compensation is included as part of governmental activities	564,688
Internal Service Fund - Motor Pool is included as part of governmental activities	<u>3,652,596</u>
Net Assets of Governmental Activities	<u>\$ 36,649,495</u>

City of Ypsilanti, Michigan

	General	Land Revolving	2002 General Obligation Capital Improvement Bonds	2003-B Capital Improvement Bonds
Revenue				
Property taxes	\$ 8,361,286	\$ -	\$ -	\$ -
State-shared revenue	3,351,506	-	-	-
Federal grants	163,820	-	-	-
State grants	8,738	2,171,320	-	-
Licenses and permits	630,677	-	-	-
Charges for services	786,777	-	-	-
Other revenue	834,001	82,028	10,276	25,886
Decrease in fair value of investments	(149,078)	-	-	-
Total revenue	13,987,727	2,253,348	10,276	25,886
Expenditures				
General administration	2,067,698	-	-	-
Public safety	7,390,727	-	-	-
Community maintenance	2,238,518	33,533	-	144,469
Culture and recreation	834,871	-	-	-
Social services	706	-	-	-
Highways, streets, and bridges	-	-	-	-
Other	186,970	-	-	-
Fringe benefits	754,956	-	-	-
Debt administration	-	2,087,708	-	119,249
Total expenditures	13,474,446	2,121,241	-	263,718
Excess of Revenue Over (Under) Expenditures	513,281	132,107	10,276	(237,832)
Other Financing Sources (Uses)				
Transfers in (Note 6)	20,387	2,073,633	-	118,999
Transfers out (Note 6)	(500,173)	(150,849)	(2,073,633)	-
Contributions from YCUA	-	-	-	-
Contributions to YCUA	-	-	-	-
Issuance of debt	-	1,410,352	-	4,400,000
Total other financing sources (uses)	(479,786)	3,333,136	(2,073,633)	4,518,999
Extraordinary Item - Reduction in the market value of land held for resale (Note 13)	-	(3,901,244)	(938,702)	(1,995,080)
Net Change in Fund Balances (Deficit)	33,495	(436,001)	(3,002,059)	2,286,087
Fund Balances (Deficit) - Beginning of year	2,677,799	4,638,268	3,097,938	-
Fund Balances (Deficit) - End of year	\$ 2,711,294	\$ 4,202,267	\$ 95,879	\$ 2,286,087

Governmental Funds
Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Year Ended June 30, 2004

2003 General Obligation Construction	2003-D Water Supply and Sewage Bonds	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,318,993	\$ 9,680,279
-	-	1,324,484	4,675,990
196,719	-	104,103	464,642
-	-	82,268	2,262,326
-	-	-	630,677
-	-	-	786,777
95,242	1,771	1,254,627	2,303,831
-	-	-	(149,078)
291,961	1,771	4,084,475	20,655,444
-	-	833,706	2,901,404
-	-	8,192	7,398,919
3,729,942	45,221	4,142,791	10,334,474
-	-	-	834,871
-	-	104,103	104,809
-	-	1,211,559	1,211,559
-	-	-	186,970
-	-	-	754,956
-	-	3,016,893	5,223,850
3,729,942	45,221	9,317,244	28,951,812
(3,437,981)	(43,450)	(5,232,769)	(8,296,368)
-	-	760,581	2,973,600
-	-	(248,945)	(2,973,600)
-	55,260	1,692,256	1,747,516
-	(3,389,754)	(5,266,960)	(8,656,714)
-	4,286,163	3,345,349	13,441,864
-	951,669	282,281	6,532,666
-	-	(953,373)	(7,788,399)
(3,437,981)	908,219	(5,903,861)	(9,552,101)
7,965,567	(1,397,841)	13,927,868	30,909,599
\$ 4,527,586	\$ (489,622)	\$ 8,024,007	\$ 21,357,498

City of Ypsilanti, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances (Deficit) - Total Governmental Funds	\$ (9,552,101)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	5,619,927
Revenue-sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end	(86,841)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(21,168)
Grant revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	49,967
Receipt of amount from joint venture for payment of bonds is reported as revenue when received in the governmental funds and as the reduction of a receivable in the statement of activities	(260,000)
Payment to joint venture from the issuance of bonds is reported as expense when paid in the governmental funds and as an addition of a receivable in the statement of activities	5,517,165
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	3,270,514
Accrued interest payable is recorded when due in governmental funds	(90,975)
Bond proceeds are not reported as financing sources on the statement of activities	(13,441,864)
Change in accumulated compensated absences is recorded when earned in the statement of activities	(18,247)
Equity interest in joint venture is not reported in the governmental funds	6,471,736
Internal Service Fund - Workers' compensation is also included as governmental activities	(331,800)
Internal Service Fund - Motor Pool is also included as governmental activities	117,504
Change in Net Assets of Governmental Activities	<u>\$ (2,756,183)</u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Net Assets June 30, 2004

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 457,735
Investments (Note 3)	2,767,192
Prepaid expenses and other assets	5,048
Inventory	<u>15,177</u>

Total current assets 3,245,152

Noncurrent assets - Capital assets 1,473,770

Total assets 4,718,922

Liabilities

Current liabilities:

Accrued and other liabilities	20,882
Current portion of long-term debt	<u>111,740</u>

Total current liabilities 132,622

Noncurrent liabilities - Long-term debt - Net of current portion 369,016

Total liabilities 501,638

Net Assets

Investment in capital assets - Net of related debt	1,425,014
Unrestricted	<u>2,792,270</u>

Total net assets \$ 4,217,284

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds **Combined Statement of Revenue, Expenses, and Changes in Net Assets** **Year Ended June 30, 2004**

Operating Revenue	
Equipment rental	\$ 1,047,061
Other	<u>72,721</u>
Total operating revenue	1,119,782
Operating Expenses	
Salaries and fringes	62,984
Gas, oil, and fuel	68,766
Depreciation	390,844
Operation and maintenance	118,907
Contractual services and fees	256,717
Insurance, claims, and other	<u>353,578</u>
Total operating expenses	<u>1,251,796</u>
Operating Loss	(132,014)
Nonoperating Revenue (Expenses)	
Interest income	56,758
Decrease in fair value of investments	(141,300)
Interest expense	(3,828)
Gain on disposal of assets	<u>6,088</u>
Total nonoperating expenses	<u>(82,282)</u>
Change in Net Assets	(214,296)
Net Assets - Beginning of year	<u>4,431,580</u>
Net Assets - End of year	<u><u>\$ 4,217,284</u></u>

City of Ypsilanti, Michigan

Proprietary Funds - Internal Service Funds Combined Statement of Cash Flows Year Ended June 30, 2004

Cash Flows from Operating Activities

Receipts from customers	\$ 1,047,061
Payments to suppliers and vendors	(531,584)
Payments to employees	(55,645)
Claims paid	(116,463)
Other receipts	<u>72,721</u>

Net cash provided by operating activities 416,090

Cash Flows from Capital and Related Financing Activities

Proceeds from sale of capital assets	6,088
Purchase of capital assets	(162,068)
Principal and interest paid on capital debt	<u>(26,359)</u>

Net cash used in capital and related financing activities (182,339)

Cash Flows from Investing Activities

Interest received	56,758
Purchase and sales of investments - Net	<u>(2,908,492)</u>

Net cash used in investing activities (2,851,734)

Net Decrease in Cash and Cash Equivalents (2,617,983)

Cash and Cash Equivalents - Beginning of year 3,075,718

Cash and Cash Equivalents - End of year \$ 457,735

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (132,014)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	390,844
Changes in assets and liabilities:	
Prepaid and other assets	389
Inventory	(2,582)
Accrued and other liabilities	<u>159,453</u>

Net cash provided by operating activities \$ 416,090

City of Ypsilanti, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Police and Fire Retirement System	Trust and Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 548,811	\$ 1,474
Investments (Note 3)	27,589,084	-
Accrued interest receivable	114,126	-
	<u>28,252,021</u>	<u>-</u>
Total assets	28,252,021	<u><u>\$ 1,474</u></u>
Liabilities		
Accounts payable	2,190	\$ -
Accrued and other liabilities	-	1,474
	<u>2,190</u>	<u>1,474</u>
Total liabilities	2,190	<u><u>\$ 1,474</u></u>
Net Assets - Held in trust for pension and other employee benefits		<u><u>\$ 28,249,831</u></u>

City of Ypsilanti, Michigan

Fiduciary Funds **Statement of Changes in Net Assets - Police and Fire Retirement System** **Year Ended June 30, 2004**

Additions

Investment income (expenses):	
Interest, dividends, and other	\$ 740,097
Net increase in fair value of investments	2,521,169
Investment expenses	<u>(117,454)</u>
Net investment income	3,143,812
Contributions - Employee	<u>399,342</u>
Total additions	3,543,154

Deductions

Benefit payments	1,623,994
Refunds of contributions	163,243
Administrative expenses	<u>45,620</u>
Total deductions	<u>1,832,857</u>

Net Increase in Assets Held for Retirement Benefits	1,710,297
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Net Assets Held in Trust for Retirement Benefits

Beginning of year	<u>26,539,534</u>
End of year	<u>\$ 28,249,831</u>

City of Ypsilanti, Michigan

Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 611,410	\$ 46,287	\$ 181,193	\$ 675	\$ 839,565
Investments (Note 3)	557,408	-	-	-	557,408
Accounts receivable and other assets	975	-	-	-	975
Due from other governmental units	600	-	-	-	600
Property, plant, and equipment (Note 5)	<u>966,412</u>	<u>157,500</u>	<u>53,200</u>	<u>-</u>	<u>1,177,112</u>
Total assets	2,136,805	203,787	234,393	675	2,575,660
Liabilities					
Accounts payable	11,332	5,714	350	-	17,396
Accrued liabilities and other	3,158	-	-	-	3,158
Due to other governmental units	365	12,360	72,164	-	84,889
Noncurrent liabilities (Note 8):					
Due within one year	40,000	10,594	-	-	50,594
Due in more than one year	<u>1,515,000</u>	<u>157,792</u>	<u>-</u>	<u>-</u>	<u>1,672,792</u>
Total liabilities	<u>1,569,855</u>	<u>186,460</u>	<u>72,514</u>	<u>-</u>	<u>1,828,829</u>
Net Assets					
Investment in capital assets - Net of related debt	406,412	(10,886)	53,200	-	448,726
Unrestricted (Note 14)	<u>160,538</u>	<u>28,213</u>	<u>108,679</u>	<u>675</u>	<u>298,105</u>
Total net assets	<u>\$ 566,950</u>	<u>\$ 17,327</u>	<u>\$ 161,879</u>	<u>\$ 675</u>	<u>\$ 746,831</u>

City of Ypsilanti, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Downtown Development Authority	\$ 392,566	\$ -	\$ 78,771
Depot Town Downtown Development Authority	64,482	-	-
Economic Development Corporation	93,186	-	-
Brownfield Redevelopment Authority	98,124	14,516	93,975
Total governmental activities	<u>\$ 648,358</u>	<u>\$ 14,516</u>	<u>\$ 172,746</u>

General revenues (expenses):

Property taxes

Interest and other

Special item - Gain (loss) on sale of land

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Depot Town Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (313,795)	\$ -	\$ -	\$ -	\$ (313,795)
-	(64,482)	-	-	(64,482)
-	-	(93,186)	-	(93,186)
-	-	-	10,367	10,367
(313,795)	(64,482)	(93,186)	10,367	(461,096)
255,786	71,780	-	-	327,566
7,462	361	1,503	-	9,326
-	-	19,071	(435,151)	(416,080)
263,248	72,141	20,574	(435,151)	(79,188)
(50,547)	7,659	(72,612)	(424,784)	(540,284)
617,497	9,668	234,491	425,459	1,287,115
\$ 566,950	\$ 17,327	\$ 161,879	\$ 675	\$ 746,831

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Ypsilanti (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Ypsilanti:

Reporting Entity

The City of Ypsilanti is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Police and Fire Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes three individuals chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority’s budget is subject to approval by the City Council. A complete financial report for the Downtown Development Authority is not available.

Note I - Summary of Significant Accounting Policies (Continued)

- b. The Depot Town Downtown Development Authority was created to correct and prevent deterioration in the Depot Town downtown district, encourage historical preservation, and to promote economic growth within the Depot Town downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. A complete financial report for the Depot Town Downtown Development Authority is not available.
- c. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council. A complete financial report for the Economic Development Corporation is not available.
- d. The Brownfield Redevelopment Authority was established pursuant to Public Act 381 of 1996. The Authority was created to promote revitalization of environmentally distressed areas within the boundaries of the City. The Authority is funded primarily by rental revenues. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. A complete financial report for the Brownfield Redevelopment Authority is not available.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Note 1 - Summary of Significant Accounting Policies (Continued)

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Land Revolving Fund - The Land Revolving Fund accounts for activity related to the purchase and development of various properties located within the City. Revenues come from various grants and proceeds from sale of land.

Note 1 - Summary of Significant Accounting Policies (Continued)

2002 General Obligation Capital Improvement Bonds, 2003-B Capital Improvement Bonds, 2003 General Obligation Construction, and 2003-D Water Supply and Sewage Bonds Funds - These funds account for construction and maintenance activity of specific roads and water projects within the City funded by the various bond issues.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

Police and Fire Retirement System Fund - The Police and Fire Retirement System Fund accounts for the activities of the police and fire employees' retirement system. This fund accumulates resources for pension benefit payments to qualified police and fire employees through the collection of property tax revenues.

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to other funds of the City for various services. Operating expenses for proprietary funds include the cost of these services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market price.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade receivables are shown net of allowance for uncollectible amounts.

Property Taxes - The 2003 taxable valuation of the City totaled approximately \$336.4 million, a portion of which is captured by the Downtown Development Authority. Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls.

	Millage Rate	Levy
Operating	19.0937	\$ 6,422,511
Sanitation	2.7870	937,458
Police and Fire Pension Fund	1.7593	591,772
YCUA Debt	0.7887	265,294
Total General Fund	24.4287	8,217,035
Street Debt - Nonmajor Debt Service Funds	3.8533	1,296,127
Total primary government	28.2820	\$ 9,513,162

Revenue shown on the financial statements for property taxes are net of related revenues, including administrative fees.

Inventories and Prepaid Items - Inventories in the General and Internal Service Funds are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The City's outstanding bond issuances require amounts to be set aside for various upcoming debt service payments. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	15 years
Buildings and improvements	5 to 70 years
Vehicles and equipment	3 to 20 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements (see Note 8). A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Fund Deficits - The City has accumulated fund deficits in the 2003-D Water Supply and Sewage Bonds, 2004-B Water Supply and Sewer, and 2003-C Water Supply and Sewer Funds due to the timing of expenditures incurred versus bond issuances. City intends to issue bonds to cover the shortfall in these funds. In addition, the Community Development Block Grant fund has accumulated fund deficit due to the timing of grant revenue not being received within 60 days of year end.

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative shortfall - Beginning of year		\$ (130,817)
Current year building permit revenue		399,316
Related expenses:		
Direct costs	\$ 316,722	
Estimated indirect costs	<u>137,555</u>	
Total construction code expenses		<u>454,277</u>
Cumulative shortfall - End of year		<u><u>\$ (185,778)</u></u>

Note 3 - Deposits and Investments

The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts, CDs, and mutual funds, but not the remainder of State statutory authority as listed above.

The City of Ypsilanti's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 13,574,261	\$ 550,285	\$ 14,124,546	\$ 839,565
Investments	6,829,337	27,589,084	34,418,421	557,408
Restricted assets	2,571,138	-	2,571,138	-
Total	<u>\$ 22,974,736</u>	<u>\$ 28,139,369</u>	<u>\$ 51,114,105</u>	<u>\$ 1,396,973</u>

Note 3 - Deposits and Investments (Continued)

The breakdown of governmental activities as shown in the fund-based statements is as follows:

	Governmental Funds	Proprietary Funds	Total Governmental Activities
Cash and cash equivalents	\$ 13,116,526	\$ 457,735	\$ 13,574,261
Investments	4,062,145	2,767,192	6,829,337
Restricted assets	2,571,138	-	2,571,138
Total	<u>\$ 19,749,809</u>	<u>\$ 3,224,927</u>	<u>\$ 22,974,736</u>

The breakdown between deposits and investments for the City is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 16,140,799	\$ 550,285	\$ 16,691,084	\$ 839,515
Investments in securities, mutual funds, and similar vehicles	6,829,337	27,589,084	34,418,421	557,408
Petty cash or cash on hand	4,600	-	4,600	50
Total	<u>\$ 22,974,736</u>	<u>\$ 28,139,369</u>	<u>\$ 51,114,105</u>	<u>\$ 1,396,973</u>

The bank balance of the City's total primary government deposits is \$17,053,488, of which \$200,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component units' deposits had a bank balance of \$839,515. The federal depository insurance coverage pertains to all of the deposits of the City; hence the specific coverage pertaining to the component units, if any, is not determinable.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ -	\$ 6,576,723	\$ -	\$ 6,576,723
Corporate bonds	-	5,652,696	-	5,652,696
Corporate stocks	-	12,919,677	-	12,919,677
Subtotal	-	25,149,096	-	25,149,096
Investments not subject to categorization - Mutual funds	-	9,269,325	-	9,269,325
Total primary government	<u>\$ -</u>	<u>\$ 34,418,421</u>	<u>\$ -</u>	<u>\$ 34,418,421</u>

Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC.

Component unit investments consist of Category 2 U.S. government securities totaling \$503,894 and uncategorized investments in mutual funds of \$53,514.

Included in the Police and Fire Retirement System's investments at June 30, 2004 are approximately \$496,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Also included in the System's investments at June 30, 2004 are approximately \$1,441,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$903,000 issued by the Federal Home Loan Mortgage Corporation (FHLMC). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables/Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 103,413	\$ -	\$ 103,413
Grant not received within 60 days of year end	57,713	-	57,713
Grant received prior to meeting all eligibility requirements	-	270,543	270,543
Total	<u>\$ 161,126</u>	<u>\$ 270,543</u>	<u>\$ 431,669</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2003	Additions and Reclassifications	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 755,585	\$ -	\$ -	\$ 755,585
Construction in progress	2,492,623	6,452,462	1,443,804	7,501,281
Subtotal	3,248,208	6,452,462	1,443,804	8,256,866
Capital assets being depreciated:				
Infrastructure	17,324,215	1,443,804	-	18,768,019
Buildings and improvements	5,714,341	85,760	67,200	5,732,901
Vehicles and equipment	5,889,948	190,168	419,803	5,660,313
Subtotal	28,928,504	1,719,732	487,003	30,161,233
Accumulated depreciation:				
Infrastructure	10,589,451	576,314	-	11,165,765
Buildings and improvements	1,805,469	153,956	1,600	1,957,825
Vehicles and equipment	3,711,117	588,157	466,591	3,832,683
Subtotal	16,106,037	1,318,427	468,191	16,956,273
Net capital assets being depreciated	12,822,467	401,305	18,812	13,204,960
Net capital assets	<u>\$ 16,070,675</u>	<u>\$ 6,853,767</u>	<u>\$ 1,462,616</u>	<u>\$ 21,461,826</u>

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 104,682
Public safety	278,637
Community maintenance	413,621
Highways, streets, and bridges	421,001
Culture and recreation	<u>100,486</u>

Total governmental activities	<u>\$ 1,318,427</u>
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Construction Commitments - The City has various active construction projects at year end. The City's construction projects include the 2003 Unlimited Tax Bond issuance, which is being used for a variety of major and local road improvements. At year end, the City's commitments with contractors are as follows:

	<u>Total Commitment</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Major and local road improvements (2003 Unlimited Tax Bonds)	\$ 8,610,300	\$ 4,082,714	\$ 4,527,586

In addition, the City issued approximately \$7,632,000 of debt in the current year for various improvements to the YCUA plant (see Note 11). The proceeds of the debt were directly forwarded to YCUA, which is responsible for administering the improvements and for paying the debt service requirements.

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Capital asset activity of the City's component unit activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component units:				
Capital assets not being depreciated -				
Land	\$ 70,900	\$ -	\$ 17,700	\$ 53,200
Capital assets being depreciated -				
Buildings and improvements	3,492,210	66,933	1,835,271	1,723,872
Accumulated depreciation -				
Buildings and improvements	<u>613,183</u>	<u>86,897</u>	<u>100,120</u>	<u>599,960</u>
Net capital assets being depreciated	<u>2,879,027</u>	<u>(19,964)</u>	<u>1,735,151</u>	<u>1,123,912</u>
Net capital assets	<u>\$ 2,949,927</u>	<u>\$ (19,964)</u>	<u>\$ 1,752,851</u>	<u>\$ 1,177,112</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Community Development Block Grant Fund	\$ 258,561
	2003 Unlimited Tax Bonds Fund	35,356
	2002-A Revenue Bonds Water Fund	<u>181,649</u>
Total General Fund		475,566
2003 General Obligation Construction Fund	2003-D Water Supply and Sewage Bonds Fund	538,021
Nonmajor governmental funds:		
Major Streets Fund	General Fund	2,500
Capital Improvement Reserve Fund	Major Streets Fund	53,210
2003-B Water Supply and Sewer Revenue Bonds Fund	2003-D Water Supply and Sewage Bonds Fund	11,790
2001 General Obligations Bonds - Roads Fund	General Fund	41,234
2003 Unlimited Tax Bonds Fund	General Fund	<u>39,358</u>
Total nonmajor governmental funds		<u>148,092</u>
Total		<u>\$ 1,161,679</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out				Total
	General Fund	Land Revolving Fund	2002 General Obligation Capital Improvement Bonds Fund	Other Nonmajor Governmental Funds	
Transfers in:					
General Fund (1)	\$ -	\$ -	\$ -	\$ 20,387	20,387
Land Revolving Fund (1)	-	-	2,073,633	-	2,073,633
2003-B Capital Improvements Fund (1)	-	118,999	-	-	118,999
Other nonmajor governmental funds (1) (2)	500,173	31,850	-	228,558	760,581
Total	<u>\$ 500,173</u>	<u>\$ 150,849</u>	<u>\$ 2,073,633</u>	<u>\$ 248,945</u>	<u>\$ 2,973,600</u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements and expenditures
- (2) Transfers for debt service

Note 7 - Contingency

The City is a defendant in several property tax appeal lawsuits. The amount of the liability to the City is undeterminable as of year end; however, an unfavorable outcome could have a material impact on the City's financial position. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

The City has undertaken a large-scale urban redevelopment project known as the Water Street Redevelopment Project. In an effort to transform a blighted, contaminated area into a vibrant urban neighborhood, the City has incurred and will continue to incur costs associated with environmental remediation of the areas included in the project. The City has obtained cost estimates for the remediation from environmental consultants, which indicate that the remaining costs could range from \$800,000 to \$1,300,000. Environmental remediation costs of \$1,300,000 have been accrued by the City.

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. The Water and Sewer revenue bonds involve a pledge of specific income from YCUA (see Note 11) derived from the acquired or constructed assets to pay the debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:						
General obligation bonds:						
2001 Paving Unlimited Tax Bonds:						
Amount of Issue - \$8,465,000		\$380,000 -				
Maturing through 2017	4.00% - 4.75%	\$710,000	\$ 7,235,000	\$ (360,000)	\$ 6,875,000	\$ 380,000
2002 Taxable Capital Improvement Bonds:						
Amount of Issue - \$4,000,000		\$255,000 -				
Maturing through 2017	3.85% - 5.90%	\$440,000	4,000,000	-	4,000,000	-
2002 Limited Tax Capital Improvement Bonds:						
Amount of Issue - \$400,000		\$20,000 -				
Maturing through 2017	3.00% - 4.60%	\$35,000	400,000	(20,000)	380,000	20,000
2003 Unlimited Tax Bonds:						
Amount of Issue - \$8,465,000		\$395,000 -				
Maturing through 2018	2.38% - 4.38%	\$815,000	8,465,000	(310,000)	8,155,000	395,000
2003 Taxable Capital Improvement Bonds:						
Amount of Issue - \$2,000,000		\$35,000 -				
Maturing through 2023	3.50% - 5.00%	\$210,000	2,000,000	-	2,000,000	-
2003 CDBG Loan:						
Amount of Issue - \$2,308,324		\$119,006 -				
Amount of total draw available - \$2,750,000		\$199,655	2,308,324	-	2,308,324	-
Maturing through 2025	4.00%					
2003-B Taxable Capital Improvement Bonds:						
Amount of Issue - \$4,400,000		\$110,000 -				
Maturing through 2024	3.85% - 5.75%	\$385,000	-	4,400,000	4,400,000	-
Revenue bonds:						
2001 Water & Sewer System:						
Amount of Issue - \$4,000,000		\$25,000 -				
Maturing through 2027	4.00% - 6.00%	\$345,000	4,000,000	(20,000)	3,980,000	25,000
2002-A Water & Sewer System:						
Amount of Issue - \$5,000,000		\$35,000 -				
Maturing through 2027	4.00% - 5.00%	\$415,000	5,000,000	(30,000)	4,970,000	35,000
2002-B Water & Sewer System:						
Amount of Issue - \$485,000		\$20,000 -				
Maturing through 2021	2.50%	\$30,000	480,000	(20,000)	460,000	20,000
2002-C Water & Sewer System:						
Amount of Issue - \$8,660,000		\$190,000 -				
Maturing through 2027	4.00% - 5.00%	\$585,000	8,660,000	(190,000)	8,470,000	190,000
2003-A Water & Sewer System:						
Amount of Issue - \$4,800,000		\$95,000 -				
Maturing through 2014	1.20% - 4.10%	\$525,000	4,800,000	-	4,800,000	95,000
2003-B Water & Sewer System:						
Amount of Issue - \$1,500,000		\$25,000 -				
Maturing through 2023	3.50% - 4.25%	\$145,000	1,500,000	-	1,500,000	-
2003-C Water & Sewer System:						
Amount of Issue - \$785,000		\$5,349 -				
Maturing through 2023	2.50%	\$45,000	-	645,349	645,349	30,000
2003-D Water & Sewer System:						
Amount of Issue - \$5,300,000		\$205,000 -				
Maturing through 2023	2.50%	\$300,000	-	4,286,163	4,286,163	205,000
2004-B Water & Sewer System:**						
Amount of Issue - \$6,330,000						
Maturing through 2025	2.50%	\$ -	-	-	-	-

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities (Continued):						
2004-A Water & Sewer System:						
Amount of Issue - \$2,700,000		\$55,000 -				
Maturing through 2028	3.30% - 4.55%	\$200,000	\$ -	\$ 2,700,000	\$ 2,700,000	\$ -
County contractual obligations:						
YCUA Washtenaw County Series I *		\$181,156 -				
Maturing through 2007	5.00% - 5.10%	\$201,790	785,339	(202,977)	582,362	201,790
YCUA Washtenaw County Series II *		\$30,862 -				
Maturing through 2007	3.90% - 4.20%	\$62,582	153,981	(23,740)	130,241	30,862
Installment purchase agreement -						
2000 DPW Office and City Hall:						
Amount of Issue - \$835,000		\$80,331 -				
Maturing through 2010	5.44%	\$105,035	629,652	(76,158)	553,494	80,331
Land contracts:						
2002 2 E. Michigan Ave Contract:						
Amount of Issue - \$218,500		\$22,000 -				
Maturing through 2012	4.25% - 6.25%	\$33,500	218,500	(218,500)	-	-
2002 32 Water Street Contract:						
Amount of Issue - \$93,150		\$9,520 -				
Maturing through 2012	4.25% - 6.25%	\$14,517	93,150	(93,150)	-	-
2002 23 Water St./20 E. Michigan Ave Contract:						
Amount of Issue - \$913,030		\$93,128 -				
Maturing through 2012	4.25% - 6.25%	\$142,539	913,030	(913,030)	-	-
2002 34,36, 40 Water Street Contract:						
Amount of Issue - \$484,175		\$48,000 -				
Maturing through 2012	5.75% - 6.25%	\$74,175	484,175	-	484,175	48,000
2002 160 E. Michigan Ave Contract:						
Amount of Issue - \$91,117		\$9,000 -				
Maturing through 2012	5.75% - 6.25%	\$14,117	91,117	(91,117)	-	-
2002 170 E. Michigan Ave Contract:						
Amount of Issue - \$212,500		\$21,000 -				
Maturing through 2012	5.75% - 6.25%	\$32,500	212,500	(212,500)	-	-
2003 33 Water Street Contract:						
Amount of Issue - \$92,000		\$9,402 -				
Maturing through 2012	5.75% - 6.25%	\$14,338	92,000	(92,000)	-	-
2003 6-8 Michigan Ave Contract:						
Amount of Issue - \$178,395		\$18,000 -				
Maturing through 2012	5.75% - 6.25%	\$27,395	178,395	(178,395)	-	-
2003 35-47 Water Street Contract:						
Amount of Issue - \$112,393		\$12,000 -				
Maturing through 2012	5.75% - 6.25%	\$16,000	108,595	(108,595)	-	-
2004 200-214 E. Michigan Ave Contract:						
Amount of Issue - \$1,300,000		\$150,000 -				
Maturing through 2011	4.25% - 4.75%	\$400,000	-	1,300,000	1,300,000	-
Capital lease - 1996 Fire Truck:						
Amount of Issue - \$199,924		\$23,740 -				
Maturing through 2006	5.20% - 5.30%	\$25,015	71,287	(22,531)	48,756	23,740
Total bonds and other obligations			52,880,045	10,148,819	63,028,864	1,779,723
Other long-term obligations:						
Workers' compensation unpaid claims (Note 9)			284,383	147,617	432,000	88,000
Accumulated compensated absences			922,288	18,247	940,535	342,355
Total other long-term obligations			1,206,671	165,864	1,372,535	430,355
Total governmental activities			\$ 54,086,716	\$ 10,314,683	\$ 64,401,399	\$ 2,210,078

* Debt service requirements are determined annually based on contractual provisions. Therefore, amounts due within one year and the total amount due are estimates based on prior payments made.

** No draws have occurred on the 2004-B Water Supply and Sewage DWRP Bonds as of June 30, 2004.

Note 8 - Long-term Debt (Continued)

Component unit long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Component unit activities:						
General obligation bonds:						
1994 Downtown Development Limited						
Tax G.O. Bonds:						
Amount of Issue - \$825,000		\$40,000 -				
Maturing through 2014	5.80% - 6.40%	\$80,000	\$ 595,000	\$ (35,000)	\$ 560,000	\$ 40,000
2004-A Downtown Development Limited						
Tax G.O. Bonds:						
Amount of Issue - \$995,000		\$15,000 -				
Maturing through 2024	3.40% - 4.60%	\$80,000	-	995,000	995,000	-
Revenue bonds:						
2000 Depot Town Downtown Development						
Authority Tax Increment Revenue Bond:						
Amount of Issue - \$210,000		\$8,362 -				
Maturing through 2016	6.00%	\$19,275	180,082	(11,696)	168,386	10,594
Land contract - 2000 Brownfield Development						
Authority Contract:						
Amount of Issue - \$1,658,431						
Maturing through 2005	prime + .50	\$ -	1,323,980	(1,323,980)	-	-
Total component unit activities			\$ 2,099,062	\$ (375,676)	\$ 1,723,386	\$ 50,594

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,779,723	\$ 2,551,729	\$ 4,331,452	\$ 50,594	\$ 95,920	\$ 146,514
2006	1,931,989	2,480,597	4,412,586	66,248	82,709	148,957
2007	2,932,172	2,437,128	5,369,300	76,941	79,106	156,047
2008	2,872,365	2,347,822	5,220,187	92,678	74,944	167,622
2009	3,051,569	2,253,668	5,305,237	98,460	90,042	188,502
2010-2014	16,741,742	9,899,068	26,640,810	640,828	261,156	901,984
2015-2019	17,241,816	6,534,201	23,776,017	322,637	123,924	446,561
2020-2024	10,856,668	3,527,158	14,383,826	375,000	52,746	427,746
2025-2028	5,620,820	543,667	6,164,487	-	-	-
Total	\$ 63,028,864	\$ 32,575,038	\$ 95,603,902	\$ 1,723,386	\$ 860,547	\$ 2,583,933

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability; the City is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Unpaid claims - Beginning of year	\$ 284,383	\$ 260,234
Incurred claims (including claims incurred but not reported)	235,790	148,112
Claim payments	(88,173)	(123,963)
Unpaid claims - End of year	<u>\$ 432,000</u>	<u>\$ 284,383</u>

Note 10 - Defined Benefit Pension Plans and Postretirement Benefits

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Ypsilanti Police and Fire Employees' Retirement System (the "System"); this plan covers all full-time police and fire employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information of the System. That report may be obtained by writing to the System at One South Huron Street, Ypsilanti, Michigan 48197.

Note 10 - Defined Benefit Pension Plans and Postretirement Benefits (Continued)

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City ordinances and State statute (P.A. 345) and requires a contribution from the employees of 10 percent of gross wages, with the exception of the fire chief, who must contribute 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 14 percent to 15 percent of covered payroll.

Annual Pension Costs - The City was not required to make a contribution for the year ended June 30, 2004. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4.5 percent to 15.0 percent per year; and (c) 4.5 percent inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period.

Reserves - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,344,523
Reserve for retirees' benefit payments	13,377,190

Trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Police and Fire Retirement System			
Annual pension costs (APC)	\$ -	\$ -	\$ 595,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Plan Description - The City also participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City not eligible for other retirement systems. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Note 10 - Defined Benefit Pension Plans and Postretirement Benefits (Continued)

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by City ordinances and requires a contribution from the employees of 3 percent of the first \$4,200 of annual compensation and 5 percent of compensation over \$4,200.

Annual Pension Costs - The City was required to make a contribution to the plan for the year ended June 30, 2004 of \$6,578. This was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include: (a) an 8.0 percent investment rate of return; and (b) projected salary increases of 4.5 percent to 8.66 percent per year including 4.5 percent inflation. Both (a) and (b) are determined using techniques that smooth the effects of short-term volatility over a five-year period.

Three-year trend information is as follows:

	Fiscal Year Ended December 31		
	2003	2002	2001
Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 15,107,484	\$ 14,404,059	\$ 14,367,886
Actuarial accrued liability (AAL)	\$ 9,888,040	\$ 9,556,377	\$ 8,991,957
Overfunded AAL	\$ 5,219,444	\$ 4,847,682	\$ 5,375,929
Funded ratio	153%	151%	159%
Covered payroll	\$ 2,910,805	\$ 2,973,876	\$ 2,691,217

Note 11 - Joint Venture

The City is a member of the Ypsilanti Community Utilities Authority (YCUA), which provides water and sewer services to the residents of the City of Ypsilanti and Ypsilanti Township. The participating communities provide annual funding debt service payments based on contractual provisions. Therefore, the total amount due recorded in the government-wide statement of net assets is an estimate, based on historical payments made. During the current year, the City contributed approximately \$269,000 for its debt service. The City appoints members to the joint venture's governing board, who then approve the annual budget.

Complete financial statements for the YCUA can be obtained from the administrative offices at 2777 State Street, Ypsilanti, Michigan.

Note 11 - Joint Venture (Continued)

The City has issued various revenue bonds on behalf of YCUA. Proceeds from the issues are contributed to YCUA for various water and sewer improvements and construction. YCUA reimburses the City annually for debt service payments, with income derived from water and sewer use rates. The City has recorded a lease receivable for the principal balance of the bonds drawn to date by YCUA on its government-wide statement of net assets.

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, 118 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2004, the City made payments for postemployment health benefit premiums of approximately \$640,000. The government obtains health care coverage through private insurers.

Note 13 - Land Held for Resale

The City is currently involved in a redevelopment project referred to as the Water Street Project. As a part of this project, the City has acquired various parcels of land in the Water Street area, and is in the process of preparing them for resale and redevelopment. As of June 30, 2004, the City has acquired numerous parcels, which are recorded as land held for resale. Acquisition costs are capitalized as well as other costs (legal, consulting, etc.) that are attributable and necessary for the project. The investment is stated at fair value, based on assessed property value (see also Note 7).

City of Ypsilanti, Michigan

Notes to Financial Statements June 30, 2004

Note 14 - Component Units Unrestricted Net Assets

The component units estimate various amounts will be needed for various projects during the upcoming years for the following purposes:

	Downtown Development Authority	Depot Town Downtown Development Authority
Depot Town development area	\$ -	\$ 2,768
TIF	160,538	-
West cross	-	10,312
Operations	-	15,133
Total unrestricted net assets	<u>\$ 160,538</u>	<u>\$ 28,213</u>

Note 15 - Designated Fund Balance

The City estimates various amounts will be needed for various projects and needs during the upcoming year from the designated fund balance for the following purposes:

	General Fund	Retirement Benefits Fund	Police Special Revenue Fund
Capital projects	\$ 301,892	\$ -	\$ -
Legal defense	75,000	-	-
Bookstore settlement	94,162	-	-
Vested employee benefits - Vacation and sick	341,219	-	-
Non-vested employee benefits - Vacation and sick	506,140	-	-
Fire and Police retiree benefits	-	637,764	-
General City retiree benefits	-	10,588	-
PSAP 911	-	-	254,747
Drug forfeiture	-	-	574,670
Total	<u>\$ 1,318,413</u>	<u>\$ 648,352</u>	<u>\$ 829,417</u>

Note 16 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Ypsilanti, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues and Transfers				
Property taxes:				
Current taxes	\$ 8,247,745	\$ 8,291,980	\$ 8,219,317	\$ (72,663)
Payment in lieu of taxes	45,150	45,029	43,534	(1,495)
Penalties and interest	76,200	79,506	98,435	18,929
Total property taxes	8,369,095	8,416,515	8,361,286	(55,229)
State-shared revenue	3,284,100	3,274,159	3,351,506	77,347
Federal grants	72,964	230,815	163,820	(66,995)
State grants	8,750	8,750	8,738	(12)
Licenses and permits	515,550	539,534	630,677	91,143
Charges for services:				
State fire protection	155,318	150,624	150,624	-
Fines and costs	395,538	443,033	462,794	19,761
Recreation program fees	18,001	17,598	20,181	2,583
Parking fines	149,000	139,545	153,178	13,633
Total charges for services	717,857	750,800	786,777	35,977
Other revenue:				
Decrease in fair value of investments	-	-	(149,078)	(149,078)
Interest	65,000	85,000	103,995	18,995
Other	470,395	598,297	730,006	131,709
Total other revenue	535,395	683,297	684,923	1,626
Transfers	-	-	20,387	20,387
Total revenue and transfers	13,503,711	13,903,870	14,008,114	104,244
Expenditures and Transfers				
Administration:				
City Council	111,433	99,274	98,171	1,103
City Manager	215,959	216,827	211,714	5,113
Community services	600	600	400	200
Elections	56,807	43,134	43,876	(742)
Finance - Accounting	212,962	210,462	214,223	(3,761)
Finance - Assessing	118,191	122,075	125,042	(2,967)
City Clerk	205,403	214,523	211,347	3,176
Human resources	138,452	149,166	143,164	6,002
Finance - Treasurer	193,330	370,627	374,047	(3,420)
Museum archives	-	-	1,859	(1,859)
Planning and development	302,107	300,426	299,679	747
Total administration	1,555,244	1,727,114	1,723,522	3,592

City of Ypsilanti, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Final Budget Favorable (Unfavorable)
Expenditures and Transfers (Continued)				
Fire:				
Administration	\$ 226,473	\$ 232,906	\$ 226,352	\$ 6,554
Suppression	2,062,495	2,059,718	1,989,790	69,928
Total fire	2,288,968	2,292,624	2,216,142	76,482
Building/Ordinance:				
Ordinance enforcement	190,035	190,635	183,402	7,233
Building inspection	309,217	309,237	316,722	(7,485)
Total building/ ordinance	499,252	499,872	500,124	(252)
Legal:				
General	49,670	49,670	49,670	-
Ordinance prosecution	105,060	105,060	105,060	-
Litigation and appeals	210,000	190,000	119,234	70,766
Personnel legal	62,500	62,500	102,520	(40,020)
Total legal	427,230	407,230	376,484	30,746
Other:				
Bonds, insurance, and workers' compensation	971,759	737,656	755,662	(18,006)
Debt administration	266,747	269,232	269,230	2
Transit and other	-	186,970	186,970	-
Transfers and contributions	518,547	335,131	523,393	(188,262)
Total other	1,757,053	1,528,989	1,735,255	(206,266)
Police:				
Administration	337,556	571,808	573,951	(2,143)
Field services	3,709,024	3,693,756	3,645,361	48,395
Forrest Knoll/Arbor Manor	43,325	49,943	59,273	(9,330)
Local Law Enforcement Block Grant	-	125,874	89,097	36,777
Parking enforcement	94,960	95,165	84,374	10,791
LAWNET Grant	88,672	85,965	64,894	21,071
Domestic Violence Coordinator	42,697	42,697	37,274	5,423
School Liaison Great Grant	83,610	87,895	86,542	1,353
Live Scan - Byrne Grant	-	33,695	33,695	-
Total police	4,399,844	4,786,798	4,674,461	112,337
Public works:				
Public building maintenance	418,514	402,292	433,059	(30,767)
Administration	388,483	390,583	393,227	(2,644)
Street lighting	405,000	405,000	406,710	(1,710)
Environmental services	941,755	941,755	982,302	(40,547)
Parks	270,333	280,333	293,403	(13,070)
Total public works	2,424,085	2,419,963	2,508,701	(88,738)

City of Ypsilanti, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures and Transfers (Continued)				
Recreation:				
Administration	\$ 135,710	\$ 139,825	\$ 142,295	\$ (2,470)
Swimming pool	-	-	15,068	(15,068)
Parkridge	-	5,783	61,360	(55,577)
Rose Foundation Grant	9,000	2,250	2,250	-
Roots-N-Shoots	-	15,000	11,948	3,052
Freight House Café	7,325	6,974	7,009	(35)
Total recreation	152,035	169,832	239,930	(70,098)
Total expenditures and transfers	13,503,711	13,832,422	13,974,619	(142,197)
Excess of Revenues and Transfers Over Expenditures and Transfers	-	71,448	33,495	\$ (37,953)
Fund Balance - Beginning of year	2,677,799	2,677,799	2,677,799	
Fund Balance - End of year	\$ 2,677,799	\$ 2,749,247	\$ 2,711,294	

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

City of Ypsilanti, Michigan

Note to Required Supplemental Information Year Ended June 30, 2004

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on a fund total basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budgets as adopted by the City Council for the General Fund is included in the required supplemental information. This comparison is presented in more detail than the adopted budget for management analysis only. A comparison of the actual results of operations to the Special Revenue Funds budgets as adopted by the City Council is available at the city hall for inspection.

During the year, the City of Ypsilanti incurred expenditures that were significantly in excess of amounts budgeted in the General Fund, as follows:

	Final Budget	Actual	Variance
Other	\$ 1,528,989	\$ 1,735,255	\$ (206,266)
Public works	2,419,963	2,508,701	(88,738)
Recreation	169,832	239,930	(70,098)

These variances resulted from various capital expenditures and accruals at the end of the fiscal year, including additional transfers made between funds, accrual of salaries and wages, and higher than expected costs associated with contractual services.

The following is a reconciliation of the budget statement to the statement of revenue, expenditures, and changes in fund balances:

	General Fund	
	Total Revenue	Total Expenditures
Amounts per statement of revenue, expenditures, and changes in fund balances	\$ 13,987,727	\$ 13,474,446
Operating transfers budgeted as expenditures	-	500,173
Operating transfers budgeted as revenue	20,387	-
Amounts per budget statement as adopted	<u>\$ 14,008,114</u>	<u>\$ 13,974,619</u>

City of Ypsilanti, Michigan

Required Supplemental Information Schedule of Funding Progress Police and Fire Retirement System Year Ended June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/98	\$ 27,766,480	\$ 25,708,661	\$ (2,057,819)	108.0	\$ 3,776,037	(54.5)
06/30/99	30,351,193	27,010,112	(3,341,081)	112.4	3,855,156	(86.7)
06/30/00	32,440,367	26,204,216	(6,236,151)	123.8	3,728,601	(167.3)
06/30/01	34,479,264	26,933,083	(7,546,181)	128.0	3,813,904	(197.9)
06/30/02	34,970,658	27,899,273	(7,071,385)	125.3	3,858,409	(183.3)
06/30/03	33,916,996	29,020,485	(4,896,511)	116.9	4,003,846	(122.3)

The schedule of employer contributions is as follows:

Fiscal Years Ended June 30	Actuarial Valuation Date June 30	Annual Required Contribution	Percentage Contributed
1999	1997	\$ 545,090	100.0
2000	1998	529,048	100.0
2001	1999	477,827	100.0
2002	2000	-	100.0
2003	2001	-	100.0
2004	2002	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date follows:

Actuarial cost method	Individual entry age actuarial cost
Amortization method	Level percent
Remaining amortization period	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% to 15.0%
*Includes inflation at	4.5%
Cost of living adjustments	None

Other Supplemental Information

City of Ypsilanti, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Retiree Benefits	Community Development Block Grant	Police Special Revenue
Assets					
Cash and cash equivalents	\$ 743,967	\$ 150,659	\$ 652,660	\$ 55,970	\$ 471,678
Investments	1,067,386	483,537	-	-	377,709
Receivables:					
Special assessments	-	-	-	-	-
Accrued interest and other	-	-	-	-	-
Due from other funds	2,500	-	-	-	-
Due from other governmental units	168,269	53,163	-	-	-
Restricted assets	-	-	-	-	-
Total assets	<u>\$ 1,982,122</u>	<u>\$ 687,359</u>	<u>\$ 652,660</u>	<u>\$ 55,970</u>	<u>\$ 849,387</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 3,049	\$ 212	\$ 4,308	\$ 181,427	\$ -
Accrued and other liabilities	6,436	7,369	-	-	19,970
Due to other funds	53,210	-	-	258,560	-
Due to other governmental units	-	-	-	-	-
Deferred revenue	-	-	-	145,933	-
Total liabilities	62,695	7,581	4,308	585,920	19,970
Fund Balances (Deficit)					
Reserved, reported in:					
Capital Projects Funds:					
Unspent bond proceeds	-	-	-	-	-
Debt service	-	-	-	-	-
Debt Service Funds - Debt service	-	-	-	-	-
Unreserved, reported in:					
Special Revenue Funds:					
Designated	-	-	648,352	-	829,417
Undesignated	1,919,427	679,778	-	(529,950)	-
Capital Projects Funds	-	-	-	-	-
Total fund balances (deficit)	<u>1,919,427</u>	<u>679,778</u>	<u>648,352</u>	<u>(529,950)</u>	<u>829,417</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,982,122</u>	<u>\$ 687,359</u>	<u>\$ 652,660</u>	<u>\$ 55,970</u>	<u>\$ 849,387</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Capital Projects Funds							
Capital Improvement Reserve	Sidewalk Improvement	2002 General Obligation Bonds - Roads	2001 General Obligation Bonds - Roads	2004-A Revenue Bonds - Water	2004-B Water and Sewer	2003 General Obligation Water Capital Improvement Bonds	2003-B Water and Sewer Revenue Bonds
\$ 220,398	\$ 110,504	\$ -	\$ -	\$ 1,897,084	\$ -	\$ 698,691	\$ 313,922
-	114,173	-	-	-	-	-	-
-	21,585	-	-	-	-	-	-
20,687	-	-	-	800	-	-	1,000
53,210	-	-	-	-	-	-	11,790
12,286	-	-	-	-	-	-	-
-	-	-	-	162,583	-	195,891	87,162
\$ 306,581	\$ 246,262	\$ -	\$ -	\$ 2,060,467	\$ -	\$ 894,582	\$ 413,874
\$ 720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,268
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,493,949	-	-
32,973	21,587	-	-	-	-	-	-
33,693	21,587	-	-	-	1,493,949	-	91,268
-	-	-	-	1,897,884	-	698,691	235,444
-	-	-	-	162,583	-	195,891	87,162
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
272,888	224,675	-	-	-	(1,493,949)	-	-
272,888	224,675	-	-	2,060,467	(1,493,949)	894,582	322,606
\$ 306,581	\$ 246,262	\$ -	\$ -	\$ 2,060,467	\$ -	\$ 894,582	\$ 413,874

City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds			Nonmajor Debt Service Funds			
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2003-A Water and Sewer Bonds	2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water	2002 Capital Improvement Bonds
Assets							
Cash and cash equivalents	\$ 19	\$ -	\$ -	\$ 66,839	\$ 13,972	\$ 8,066	\$ 10,038
Investments	-	-	-	-	-	-	-
Receivables:							
Special assessments	-	-	-	-	-	-	-
Accrued interest and other	-	-	112	-	-	-	-
Due from other funds	-	-	-	41,234	-	-	-
Due from other governmental units	-	325,786	-	-	-	-	-
Restricted assets	67,788	-	-	-	388,640	444,174	277,589
Total assets	<u>\$ 67,807</u>	<u>\$ 325,786</u>	<u>\$ 112</u>	<u>\$ 108,073</u>	<u>\$ 402,612</u>	<u>\$ 452,240</u>	<u>\$ 287,627</u>
Liabilities and Fund Balances (Deficit)							
Liabilities							
Accounts payable	\$ -	\$ 143,931	\$ 112	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-	-	-	-
Due to other funds	-	181,649	-	-	-	-	-
Due to other governmental units	76,145	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Total liabilities	76,145	325,580	112	-	-	-	-
Fund Balances (Deficit)							
Reserved:							
Capital Projects Funds:							
Unspent bond proceeds	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Debt Service Funds - Debt service	-	-	-	108,073	402,612	452,240	287,627
Unreserved, reported in:							
Special Revenue Funds:							
Designated	-	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-	-
Capital Projects Funds	(8,338)	206	-	-	-	-	-
Total fund balances (deficit)	(8,338)	206	-	108,073	402,612	452,240	287,627
Total liabilities and fund balances (deficit)	<u>\$ 67,807</u>	<u>\$ 325,786</u>	<u>\$ 112</u>	<u>\$ 108,073</u>	<u>\$ 402,612</u>	<u>\$ 452,240</u>	<u>\$ 287,627</u>

**Other Supplemental Information
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ -	\$ 639	\$ 8,606	\$ 2,773	\$ -	\$ 5,426,485
-	-	-	-	-	2,042,805
-	-	-	-	-	21,585
-	-	-	-	-	22,599
-	-	-	-	39,358	148,092
-	-	-	-	-	559,504
-	44,395	611,413	281,466	-	2,561,101
\$ -	\$ 45,034	\$ 620,019	\$ 284,239	\$ 39,358	\$ 10,782,171
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 425,027
-	-	-	-	-	33,775
-	-	-	-	35,356	528,775
-	-	-	-	-	1,570,094
-	-	-	-	-	200,493
-	-	-	-	35,356	2,758,164
-	-	-	-	-	2,832,019
-	-	-	-	-	445,636
-	45,034	620,019	284,239	4,002	2,203,846
-	-	-	-	-	1,477,769
-	-	-	-	-	2,069,255
-	-	-	-	-	(1,004,518)
-	45,034	620,019	284,239	4,002	8,024,007
\$ -	\$ 45,034	\$ 620,019	\$ 284,239	\$ 39,358	\$ 10,782,171

City of Ypsilanti, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Retiree Benefits	Community Development Block Grant	Police Special Revenue
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
State-shared revenue	1,011,342	313,142	-	-	-
Federal grants	-	-	-	104,103	-
State grants	-	-	-	-	82,268
Other revenue	41,802	45,103	838,210	2,110	176,270
Total revenue	1,053,144	358,245	838,210	106,213	258,538
Expenditures					
General administration	-	-	638,569	50,000	-
Public safety	-	-	-	-	8,192
Community maintenance	-	-	-	975,511	-
Social services	-	-	-	104,103	-
Highways, streets, and bridges	699,101	512,458	-	-	-
Debt administration	-	-	-	-	-
Total expenditures	699,101	512,458	638,569	1,129,614	8,192
Excess of Revenue Over (Under) Expenditures	354,043	(154,213)	199,641	(1,023,401)	250,346
Other Financing Sources (Uses)					
Transfers in	8,049	104,874	-	91,485	175,739
Transfers out	(153,210)	-	-	(15,714)	(20,387)
Contributions from YCUA	-	-	-	-	-
Contributions to YCUA	-	-	-	-	-
Proceeds from the issuance of debt	-	-	-	-	-
Total other financing sources (uses)	(145,161)	104,874	-	75,771	155,352
Extraordinary Item - Loss on write-down of land held for resale	-	-	-	-	-
Net Change in Fund Balances (Deficit)	208,882	(49,339)	199,641	(947,630)	405,698
Fund Balances (Deficit) - Beginning of year	1,710,545	729,117	448,711	417,680	423,719
Fund Balances (Deficit) - End of year	<u>\$ 1,919,427</u>	<u>\$ 679,778</u>	<u>\$ 648,352</u>	<u>\$ (529,950)</u>	<u>\$ 829,417</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Capital Projects Funds

Capital Improvement Reserve	Sidewalk Improvement	2002 General Obligation Bonds - Roads	2001 General Obligation Bonds - Roads	2004-A Revenue Bonds - Water	2004-B Water and Sewer	2003 General Obligation Water Capital Improvement Bonds	2003-B Water and Sewer Revenue Bonds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
14,003	54,198	-	11,957	14,157	-	23,251	11,883
14,003	54,198	-	11,957	14,157	-	23,251	11,883
144,815	-	322	-	-	-	-	-
-	-	-	-	-	-	-	-
254,649	49,147	4,964	2,852,698	-	-	5,822	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	80,647	-	83,097	41,900
399,464	49,147	5,286	2,852,698	80,647	-	88,919	41,900
(385,461)	5,051	(5,286)	(2,840,741)	(66,490)	-	(65,668)	(30,017)
339,818	-	5,286	-	-	-	-	-
(59,634)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	41,787
-	-	-	-	(573,043)	(1,493,949)	-	(1,055,551)
-	-	-	-	2,700,000	-	-	-
280,184	-	5,286	-	2,126,957	(1,493,949)	-	(1,013,764)
-	-	-	-	-	-	(953,373)	-
(105,277)	5,051	-	(2,840,741)	2,060,467	(1,493,949)	(1,019,041)	(1,043,781)
378,165	219,624	-	2,840,741	-	-	1,913,623	1,366,387
\$ 272,888	\$ 224,675	\$ -	\$ -	\$ 2,060,467	\$ (1,493,949)	\$ 894,582	\$ 322,606

City of Ypsilanti, Michigan

	Nonmajor Capital Projects Funds			Nonmajor Debt Service Funds			
	2003-C Water Supply and Sewer	2002-A Revenue Bonds - Water	2003-A Water and Sewer Bonds	2001 General Obligations Bonds - Roads	2001 Revenue Bonds - Water	2002A Revenue Bonds - Water	2002 Capital Improvement Bonds
Revenue							
Property taxes	\$ -	\$ -	\$ -	\$ 678,335	\$ -	\$ -	\$ -
State-shared revenue	-	-	-	-	-	-	-
Federal grants	-	-	-	-	-	-	-
State grants	-	-	-	-	-	-	-
Other revenue	22	4,573	-	-	2,908	3,271	4,039
Total revenue	22	4,573	-	678,335	2,908	3,271	4,039
Expenditures							
General administration	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Community maintenance	-	-	-	-	-	-	-
Social services	-	-	-	-	-	-	-
Highways, streets, and bridges	-	-	-	-	-	-	-
Debt administration	1,257	-	-	667,025	219,836	273,413	206,721
Total expenditures	1,257	-	-	667,025	219,836	273,413	206,721
Excess of Revenue Over (Under)							
Expenditures	(1,235)	4,573	-	11,310	(216,928)	(270,142)	(202,682)
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Contributions from YCUA	69,823	316,386	-	-	219,836	273,413	-
Contributions to YCUA	(714,969)	(1,429,448)	-	-	-	-	-
Proceeds from the issuance of debt	645,349	-	-	-	-	-	-
Total other financing sources (uses)	203	(1,113,062)	-	-	219,836	273,413	-
Extraordinary Item - Loss on write- down of land held for resale	-	-	-	-	-	-	-
Net Change in Fund Balances (Deficit)	(1,032)	(1,108,489)	-	11,310	2,908	3,271	(202,682)
Fund Balances (Deficit) - Beginning of year	(7,306)	1,108,695	-	96,763	399,704	448,969	490,309
Fund Balances (Deficit) - End of year	<u>\$ (8,338)</u>	<u>\$ 206</u>	<u>\$ -</u>	<u>\$ 108,073</u>	<u>\$ 402,612</u>	<u>\$ 452,240</u>	<u>\$ 287,627</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit) (Continued)
Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Funds					
2002 General Obligation Capital Improvement Bonds	2002-B Revenue Bonds - Water	2002-C Water and Sewer Construction	Water Supply and Sewage Refunding Bonds	2003 Unlimited Tax Bonds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 640,658	\$ 1,318,993
-	-	-	-	-	1,324,484
-	-	-	-	-	104,103
-	-	-	-	-	82,268
-	326	4,486	2,058	-	1,254,627
-	326	4,486	2,058	640,658	4,084,475
-	-	-	-	-	833,706
-	-	-	-	-	8,192
-	-	-	-	-	4,142,791
-	-	-	-	-	104,103
-	-	-	-	-	1,211,559
35,330	31,813	577,650	161,548	636,656	3,016,893
35,330	31,813	577,650	161,548	636,656	9,317,244
(35,330)	(31,487)	(573,164)	(159,490)	4,002	(5,232,769)
35,330	-	-	-	-	760,581
-	-	-	-	-	(248,945)
-	31,813	577,650	161,548	-	1,692,256
-	-	-	-	-	(5,266,960)
-	-	-	-	-	3,345,349
35,330	31,813	577,650	161,548	-	282,281
-	-	-	-	-	(953,373)
-	326	4,486	2,058	4,002	(5,903,861)
-	44,708	615,533	282,181	-	13,927,868
<u>\$ -</u>	<u>\$ 45,034</u>	<u>\$ 620,019</u>	<u>\$ 284,239</u>	<u>\$ 4,002</u>	<u>\$ 8,024,007</u>

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Net Assets Proprietary Funds - Internal Service Funds Year Ended June 30, 2004

	Motor Pool	Self-Insurance Workers' Compensation	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 333,325	\$ 124,410	\$ 457,735
Investments	1,890,417	876,775	2,767,192
Prepaid expenses and other assets	5,048	-	5,048
Inventory	15,177	-	15,177
Total current assets	2,243,967	1,001,185	3,245,152
Noncurrent assets - Capital assets	1,473,770	-	1,473,770
Total assets	3,717,737	1,001,185	4,718,922
Liabilities			
Current liabilities:			
Accrued and other liabilities	16,385	4,497	20,882
Current portion of long-term debt	23,740	88,000	111,740
Total current liabilities	40,125	92,497	132,622
Noncurrent liabilities - Long-term debt - Net of current portion	25,016	344,000	369,016
Total liabilities	65,141	436,497	501,638
Net Assets			
Investment in capital assets - Net of related debt	1,425,014	-	1,425,014
Unrestricted	2,227,582	564,688	2,792,270
Total net assets	\$ 3,652,596	\$ 564,688	\$ 4,217,284

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Proprietary Funds - Internal Service Funds Year Ended June 30, 2004

	Motor Pool	Self-Insurance Workers' Compensation	Total
Operating Revenue			
Equipment rental	\$ 1,047,061	\$ -	\$ 1,047,061
Other	-	72,721	72,721
	<u>1,047,061</u>	<u>72,721</u>	<u>1,119,782</u>
Operating Expenses			
Salaries and fringes	62,984	-	62,984
Gas, oil, and fuel	68,766	-	68,766
Depreciation	390,844	-	390,844
Operation and maintenance	118,907	-	118,907
Contractual services and fees	158,674	98,043	256,717
Insurance, claims, and other	89,498	264,080	353,578
	<u>889,673</u>	<u>362,123</u>	<u>1,251,796</u>
Operating Income (Loss)	157,388	(289,402)	(132,014)
Nonoperating Revenue (Expenses)			
Interest income	31,099	25,659	56,758
Decrease in fair value of investments	(73,243)	(68,057)	(141,300)
Interest expense	(3,828)	-	(3,828)
Gain on disposal of assets	6,088	-	6,088
	<u>(39,884)</u>	<u>(42,398)</u>	<u>(82,282)</u>
Change in Net Assets	117,504	(331,800)	(214,296)
Net Assets - Beginning of year	3,535,092	896,488	4,431,580
Net Assets - End of year	<u>\$ 3,652,596</u>	<u>\$ 564,688</u>	<u>\$ 4,217,284</u>

City of Ypsilanti, Michigan

Other Supplemental Information Combining Statement of Cash Flows Proprietary Funds - Internal Service Funds Year Ended June 30, 2004

	Motor Pool	Self-Insurance Workers' Compensation	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,047,061	\$ -	\$ 1,047,061
Payments to suppliers and vendors	(438,038)	(93,546)	(531,584)
Payments to employees	(51,362)	(4,283)	(55,645)
Claims paid	-	(116,463)	(116,463)
Other receipts	-	72,721	72,721
Net cash provided by (used in) operating activities	557,661	(141,571)	416,090
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of capital assets	6,088	-	6,088
Purchase of capital assets	(162,068)	-	(162,068)
Principal and interest paid on capital debt	(26,359)	-	(26,359)
Net cash used in capital and related financing activities	(182,339)	-	(182,339)
Cash Flows from Investing Activities			
Interest received	31,099	25,659	56,758
Purchase and sales of investments - Net	(1,963,660)	(944,832)	(2,908,492)
Net cash used in investing activities	(1,932,561)	(919,173)	(2,851,734)
Net Decrease in Cash and Cash Equivalents	(1,557,239)	(1,060,744)	(2,617,983)
Cash and Cash Equivalents - Beginning of year	1,890,564	1,185,154	3,075,718
Cash and Cash Equivalents - End of year	<u>\$ 333,325</u>	<u>\$ 124,410</u>	<u>\$ 457,735</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 157,388	\$ (289,402)	\$ (132,014)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	390,844	-	390,844
Changes in assets and liabilities:			
Prepaid and other assets	389	-	389
Inventory	(2,582)	-	(2,582)
Accrued and other liabilities	11,622	147,831	159,453
Net cash provided by (used in) operating activities	<u>\$ 557,661</u>	<u>\$ (141,571)</u>	<u>\$ 416,090</u>

October 8, 2004

Honorable Mayor and Members of the City Council
City of Ypsilanti
One South Huron Street
Ypsilanti, Michigan 48197

Dear Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2004. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the City.

ACCOUNTING AND RECORD KEEPING

Interfund Receivables, Payables, and Transfers

During the course of our audit, we noted significant interfund balances, as well as single accounts used for numerous interfund balances and transfers. We suggest the City consider the following as part of its monthly accounting procedures in order to minimize the amount of interfund borrowing at each month's end and to simplify the process currently in place.

- Procedures should ensure that a balance and transfer in one fund corresponds to a balance and transfer in another fund, identified in a separate account in each of the funds.
- Common interfund balances within a fund (i.e., a fund has both a due from and a due to the same fund) should be combined through a journal entry.
- If a fund has cash available, pay off or reduce the interfund balance on a regular basis.
- If a fund does not have common interfunds or cash available or the possibility of future cash flows is questionable, the interfunds should be analyzed for potential uncollectability and, if appropriate, adjustments should be made. In effect, the interfund may actually represent a transfer rather than a loan.

Monitoring and liquidating interfund balances will help to make interim and year-end financial reports simpler and easier to understand, ensure that each fund is able to invest and be credited with its share of investment earnings on an equitable basis, and avoid cash flow surprises resulting from unexpected demands or needs to liquidate interfund balances.

Cash and Investments

Although bank reconciliations are prepared and reviewed on a timely basis, the process should include substantiation of the review process. We suggest that the reviewer on the reconciliations initial and date the bank reconciliations to provide an audit trail of a timely review process.

Property Taxes

The City has an Act 345 property tax levy for Retirement System funding and retiree benefit payments. The current levy provides approximately \$595,000 in revenues, while the costs for the retiree healthcare were less than \$400,000. These monies have been properly reserved, however, the City should consider the existing balance when setting the ACT 345 millage in future years.

Retirement System

When reviewing investment activity for the year, we again noted that the City did not receive a cumulative statement from the investment trustee for the period July 1, 2003 through June 30, 2004. The annual summary would include all activity for the year, showing the detail for all income and expenses. This would be a great tool for the City at the end of the year in preparation for the annual audit.

Grants and Other Revenue Sources

While reviewing the City's federal and state grant activity, we noted that a request was submitted for Community Development Block Grant reimbursement for costs incurred between 6/1/03 and 6/30/04. The City should consider establishing a procedure whereas, reimbursements due to the City are requested on a more timely basis.

While reviewing various reports associated with the CDBG, we noted that the progress report submitted to the Michigan EDC is continuously updated throughout the year. This report is agreed to the general ledger during the various points in the year, however, a copy is not retained for records. We encourage the City to save a copy in order to provide support for the general ledger activity.

The City does not have a formal written agreement with YCUA related to the DWRF loans documenting the responsibility for performing the federal programs audit. Since the loans are in the City's name, it is the City's obligation to perform a federal program audit. City management has discussed this issue with YCUA's auditors who have suggested that it would be most efficient to have the Federal Program Audit responsibility fall on the party that is administering, hiring, and supervising the projects. In order to do this, the City needs to obtain written documentation from YCUA that confirms this agreement. In addition, the City should plan to have YCUA administer any new DWRF loans that are received as they will be used for water and sewer related projects. Although the audit responsibility is moved to YCUA, the City is responsible for ensuring that all Federal Program Audit requirements are met, and therefore should be monitored by the City on a regular basis.

LEGISLATIVE ISSUES

State Shared Revenue

State shared revenue is a significant portion of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

Transportation Matters

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that over the next 10 years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

Fire Protection Grants

Certain communities with qualifying state-owned property within their jurisdiction receive fire protection grants from the State of Michigan. A portion of the grants are included in the Department of Labor and Economic Growth budget (approximately \$3.7 million) and the remainder is to be paid to local governments as a result of legislative changes made last year (\$3.5 million). In combination, the State forecasts for its 2004/2005 fiscal year that approximately \$7.2 million of fire protection grant monies will be available to local governments. In addition, new legislation (HB 5313) could provide an estimated additional \$3.7 million from the potential sale of excess state land to local governments receiving fire protection grants. As passed, HB 5313 deposits proceeds on identified potential land sale transactions that exceed \$36 million into the fire protection fund for payment to local governments. While it appears that these monies will experience an increase, due to the nature of their appropriation and the history involving their availability, local governments receiving these monies should continue to budget these monies carefully when doing multi-year planning.

Property Tax Matters

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

Refuse Disposal

SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Health Care Costs

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (due December 31, 2004) and is good for one year thereafter. In addition, the City should consider the need to file a qualifying statement for each of its component units.

We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Martin J. Olejnik